

Business Situation

Preliminary Estimates for the Second Quarter of 2002

PRELIMINARY estimates of the national income and product accounts (NIPA's) show a slowdown in economic growth similar to that reported in last month's "advance" estimates.

- Real gross domestic product (GDP) increased 1.1 percent in the second quarter of 2002 after increasing 5.0 percent in the first quarter (table 1 and chart 1).¹ For the two quarters taken together, growth averaged 3.1 percent.
- Gross domestic purchases increased 2.7 percent after increasing 5.6 percent.
- Real disposable personal income increased 3.7 percent after increasing 14.6 percent.

Inflation stepped up, as the price index for gross do-

This article was prepared by Daniel Larkins, Frederick von Batchelder, and Janet Kmitch.

Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	2002		2001			2001		2002	
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	9,389.6	-6.7	62.4	114.4	26.4	-0.3	2.7	5.0	1.1
Less: Exports of goods and services.....	1,060.9	-50.8	-26.2	8.8	30.3	-17.3	-9.6	3.5	12.3
Plus: Imports of goods and services.....	1,555.0	-46.6	-19.8	29.9	77.9	-11.8	-5.3	8.5	22.8
Equals: Gross domestic purchases	9,843.7	-1.3	69.5	132.9	65.5	-0.1	2.9	5.6	2.7
Less: Change in private inventories.....	7.3	-3.5	-36.6	69.5	36.2				
Equals: Final sales to domestic purchasers	9,826.7	1.6	102.0	72.1	32.3	0.1	4.3	3.0	1.3
Personal consumption expenditures.....	6,543.8	22.9	93.1	49.8	30.0	1.5	6.0	3.1	1.9
Durable goods.....	981.2	10.2	69.4	-16.1	5.3	4.6	33.6	-6.3	2.2
Nondurable goods.....	1,921.9	6.0	16.7	36.4	0.5	1.3	3.6	7.9	0.1
Services.....	3,666.1	8.2	19.1	25.6	23.9	0.9	2.1	2.9	2.7
Private fixed investment.....	1,571.8	-17.8	-37.3	-2.0	-4.6	-4.3	-8.9	-0.5	-1.2
Nonresidential.....	1,180.7	-19.3	-35.3	-18.0	-7.7	-6.0	-10.9	-5.8	-2.6
Structures.....	231.6	1.9	-23.6	-9.5	-11.6	2.9	-30.1	-14.2	-17.7
Equipment and software.....	961.0	-23.5	-6.1	-6.6	7.3	-9.2	-2.5	-2.7	3.1
Residential.....	385.7	0.3	-3.3	12.6	2.1	0.4	-3.5	14.2	2.3
Government consumption expenditures and gross investment.....	1,703.4	-4.7	41.2	22.8	6.1	-1.1	10.5	5.6	1.4
Federal.....	609.0	1.7	18.3	10.6	11.2	4.2	13.5	7.4	7.7
National defense.....	395.7	4.1	12.5	10.5	7.2	4.6	14.3	11.6	7.6
Nondefense.....	213.3	-2.4	5.9	0.2	4.0	-4.5	12.1	0.4	7.7
State and local.....	1,094.4	-6.1	23.0	12.2	-4.9	-2.3	8.9	4.6	-1.8
Addendum: Final sales of domestic product	9,372.9	-3.8	94.4	54.5	-6.5	-0.2	4.2	2.4	-0.3

NOTE: Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive.

Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begins on page D-2 in this issue.)

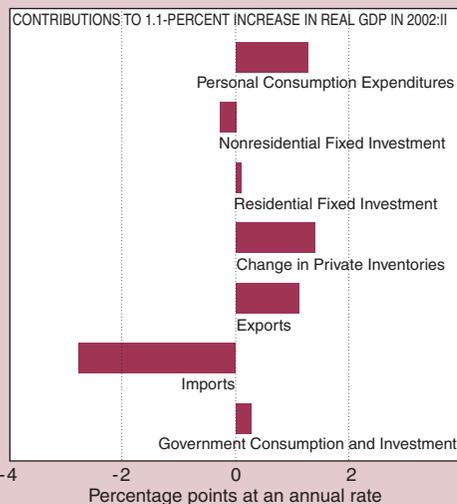
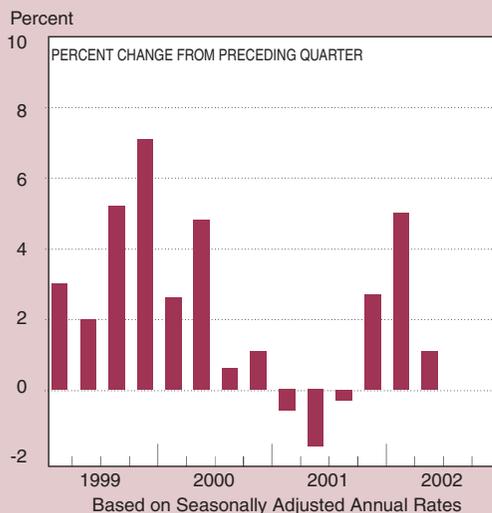
mestic purchases increased 2.2 percent after increasing 1.2 percent.

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

CHART 1

Real Gross Domestic Product



The preliminary estimate of GDP growth is the same as the advance estimate; the preliminary estimate of the growth of gross domestic purchases is only 0.1 percentage point less than the advance estimate.² The preliminary and advance estimates are also similar in many other respects. In both, for example, the deceleration in GDP growth was mainly accounted for by slowdowns in inventory investment, consumer spending, and government spending.³ In addition, imports (which are subtracted in the calculation of GDP) accelerated sharply. According to the preliminary estimates:

- A swing from inventory liquidation to inventory accumulation contributed 1.40 percentage points to GDP growth in the second quarter; in the first quarter, a sharp cut in the pace of liquidation had contributed 2.60 percentage points to growth (table 2).
- Consumer spending contributed 1.28 percentage points to second-quarter growth after contributing 2.22 percentage points to first-quarter growth. Consumer purchases of durable goods turned up, and purchases of services increased almost as much as in the first quarter, but purchases of nondurable goods were flat after a sharp first-quarter increase.
- Government spending contributed 0.27 percentage point to growth after contributing 1.04 percentage

2. The source data underlying the revision to GDP and its components are discussed in the section "Revisions."

3. In this article, "consumer spending" is shorthand for the NIPA series "personal consumption expenditures," "government spending" is shorthand for "government consumption expenditures and gross investment," and "inventory investment" is shorthand for "change in private inventories."

Table 2. Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	2001		2002	
	III	IV	I	II
Percent change at annual rate:				
Gross domestic product.....	-0.3	2.7	5.0	1.1
Percentage points at annual rates:				
Personal consumption expenditures	0.97	4.05	2.22	1.28
Durable goods.....	0.36	2.45	-0.55	0.18
Nondurable goods.....	0.25	0.73	1.57	0.02
Services.....	0.35	0.87	1.20	1.08
Gross private domestic investment.....	-0.81	-2.88	2.53	1.22
Fixed investment.....	-0.72	-1.49	-0.07	-0.18
Nonresidential.....	-0.73	-1.33	-0.66	-0.28
Structures.....	0.10	-1.12	-0.44	-0.53
Equipment and software.....	-0.83	-0.21	-0.22	0.25
Residential.....	0.02	-0.16	0.60	0.10
Change in private inventories.....	-0.09	-1.39	2.60	1.40
Net exports of goods and services.....	-0.24	-0.28	-0.75	-1.65
Exports.....	-1.94	-0.99	0.33	1.12
Goods.....	-1.49	-0.56	-0.23	1.02
Services.....	-0.45	-0.42	0.56	0.10
Imports.....	1.70	0.70	-1.08	-2.77
Goods.....	1.17	0.37	-0.40	-2.80
Services.....	0.53	0.33	-0.68	0.03
Government consumption expenditures and gross investment.....	-0.21	1.85	1.04	0.27
Federal.....	0.07	0.80	0.47	0.49
National defense.....	0.18	0.54	0.46	0.31
Nondefense.....	-0.11	0.26	0.01	0.18
State and local.....	-0.28	1.05	0.56	-0.22

NOTE: More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

points. Federal Government spending increased a little more than in the first quarter, but State and local government spending turned down.

The advance and preliminary estimates also agree on the following important points.

- Final sales of domestic product—GDP less inventory investment—decreased modestly after increasing.
- Inventory stocks increased after substantial liquidation in each of the preceding five quarters.
- The production of structures turned down; in contrast, the production of services increased a little more than in the first quarter (table 3). The production of goods weakened (in the preliminary estimate it slowed, and in the advance it turned down).
- Imports increased more than twice as much as exports.⁴
- The personal saving rate, which is measured as personal saving as a percentage of current-dollar disposable personal income, increased (to 3.9 percent in the preliminary estimate). The national saving rate, which is measured as gross saving as a percentage of gross national product and which is not available until the time of the preliminary estimate, slipped to 15.5 percent from 15.6 percent, the seventh consecutive decrease (from a peak of 18.5 percent in the third quarter of 2000).
- Real final sales of computers turned up. Real motor vehicle output increased less than in the first quarter (table 3).

4. Imports of goods and services are included in gross domestic purchases but not in GDP. Exports of goods and services are included in GDP but not in gross domestic purchases.

Table 3. Real Gross Domestic Product by Type of Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2001		2002	
		2002	2001	2002	I	II	III	IV	I
	II	III	IV	I	II	III	IV	I	II
Gross domestic product.....	9,389.6	-6.7	62.4	114.4	26.4	-0.3	2.7	5.0	1.1
Goods.....	3,677.2	-13.8	37.9	72.6	6.4	-1.5	4.3	8.3	0.7
Services.....	4,940.8	21.2	38.2	34.1	37.6	1.8	3.2	2.8	3.1
Structures.....	774.6	-14.9	-11.3	11.6	-17.5	-7.1	-5.6	6.1	-8.6
Addenda:									
Motor vehicle output.....	347.7	8.0	12.4	7.9	7.2	10.7	16.3	9.9	8.7
Gross domestic product less motor vehicle output.....	9,042.7	-14.0	51.2	106.9	20.1	-0.6	2.3	4.9	0.9
Final sales of computers.....						-5.3	28.9	-7.8	15.6
Gross domestic product less final sales of computers.....						-0.2	2.6	5.1	1.0

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

Personal Consumption Expenditures

Real personal consumption expenditures increased 1.9 percent in the second quarter after increasing 3.1 percent in the first (table 4 and chart 2).

The slowdown was accounted for by expenditures for nondurable goods, which changed little after jumping 7.9 percent (the biggest increase in more than 25 years). Food, clothing, and energy goods all turned down, and "other" nondurable goods increased less than in the first quarter. The downturn in food was accounted for both by restaurant meals and by food purchased for consumption at home.⁵ The downturn in

clothing was mainly accounted for by a downturn in purchases of women's clothing; a downturn in purchases of shoes and a slowdown in purchases of clothing for men and boys also contributed. The downturn in energy goods was mostly accounted for by purchases of gasoline.

5. Technically, "purchased meals and beverages" and "food purchased for off-premise consumption."

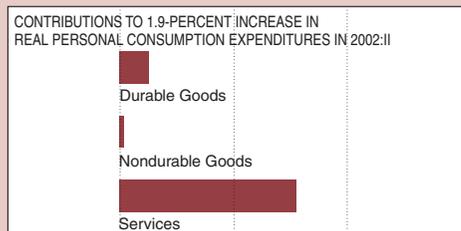
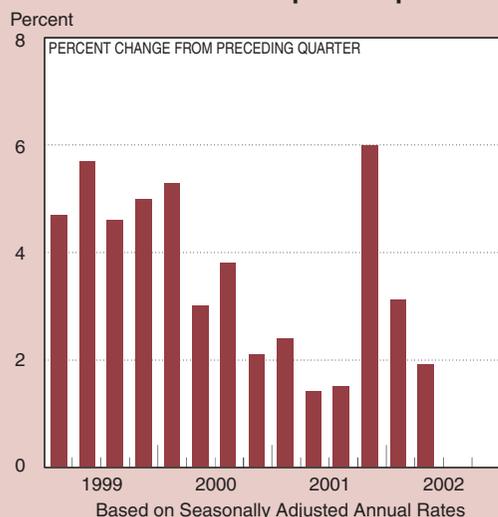
Table 4. Real Personal Consumption Expenditures
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	2002		2001		2002	2001		2002	
	II	III	IV	I	II	III	IV	I	II
Personal consumption expenditures	6,543.8	22.9	93.1	49.8	30.0	1.5	6.0	3.1	1.9
Durable goods.....	981.2	10.2	69.4	-16.1	5.3	4.6	33.6	-6.3	2.2
Motor vehicles and parts	369.2	3.3	47.6	-30.4	-0.8	3.8	66.0	-27.1	-0.9
Of which:									
New autos.....	105.8	-2.1	17.0	-12.5	-1.0	-7.9	85.0	-35.9	-3.7
New light trucks.....	128.7	5.5	30.6	-15.8	-3.1	21.5	153.1	-36.4	-9.2
Furniture and household equipment.....	435.6	6.7	14.1	14.6	7.4	7.0	14.9	14.9	7.1
Other ¹	184.2	0.8	3.9	5.3	0	1.9	9.1	12.4	0.1
Nondurable goods.....	1,921.9	6.0	16.7	36.4	0.5	1.3	3.6	7.9	0.1
Food.....	900.3	-3.1	2.8	14.3	-1.1	-1.4	1.3	6.6	-0.5
Clothing and shoes.....	355.7	2.4	7.7	11.0	-0.1	2.9	9.5	13.5	-0.2
Gasoline, fuel oil, and other energy goods.....	155.3	3.6	1.5	3.8	-1.9	10.1	4.0	10.5	-4.8
Other ²	513.7	3.0	5.5	8.1	3.6	2.5	4.6	6.6	2.8
Services.....	3,666.1	8.2	19.1	25.6	23.9	0.9	2.1	2.9	2.7
Housing.....	878.5	2.0	2.5	4.4	4.5	0.9	1.2	2.1	2.0
Household operation.....	382.9	0.4	-4.2	3.6	1.6	0.4	-4.3	3.9	1.7
Electricity and gas.....	133.6	-0.6	-2.2	3.3	0.1	-1.8	-6.4	10.4	0.5
Other household operation.....	249.5	1.0	-2.1	0.2	1.5	1.5	-3.2	0.4	2.4
Transportation.....	250.3	-2.5	-1.4	2.3	-0.6	-4.0	-2.2	3.8	-1.0
Medical care.....	974.6	11.6	10.6	8.5	11.2	5.1	4.6	3.6	4.7
Recreation.....	237.0	-1.0	2.7	0.8	1.4	-1.7	4.8	1.3	2.4
Other ³	941.1	-2.5	8.2	6.1	5.8	-1.0	3.6	2.7	2.5

1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.
 2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.
 3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.
 NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

CHART 2

Real Personal Consumption Expenditures



Percentage points at an annual rate
 U.S. Bureau of Economic Analysis

In contrast to the slowdown in nondurable goods, expenditures for durable goods turned up, and expenditures for services increased about the same as in the first quarter.

In durable goods, motor vehicles decreased much less than in the first quarter; the first-quarter decrease had represented a return to more-normal levels after an exceptional fourth-quarter surge. Furniture and household equipment and “other” durable goods slowed substantially.

In services, a slowdown in purchases of electricity and gas and a downturn in transportation purchases (mainly airline travel and motor vehicle leasing) were largely offset by a step-up in purchases of medical care (more than accounted for by hospitals).

Factors frequently considered in the analysis of consumer spending were generally favorable in the second quarter (chart 3). Real disposable personal income increased 3.7 percent in the quarter and was 5.0 percent higher than a year earlier. (During the expansion of the 1990s, its average annual rate of growth was 3.1 percent.)⁶ The Index of Consumer Sentiment (prepared by the University of Michigan’s Survey Research Center) edged higher after increasing in the first quarter—its first quarterly increase since early 2000. The unemployment rate held steady—albeit at its relatively high first-quarter rate of 5.9 percent.

6. In this article, the expansion is assumed to have begun after the trough in real GDP in the first quarter of 1991 and to have extended to the peak in real GDP in the fourth quarter of 2000.

CHART 3

Selected Factors Affecting Consumer Spending

Percent change



Percent



Index



1. Based on seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted. Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center

U.S. Bureau of Economic Analysis

Private Fixed Investment

Real private fixed investment decreased for the seventh consecutive quarter, though the two most recent decreases were smaller than those that preceded them (table 5 and chart 4).

Nonresidential fixed investment. Equipment and software increased for the first time since the third quarter of 2000, but structures posted another sizable decline.

Information processing equipment increased almost twice as much as in the first quarter; software turned up, and "other" information processing equipment increased more than in the first quarter, but purchases of computers slowed. "Other" equipment increased in the second quarter after decreasing in the first; construction equipment, furniture, and machinery for mining and drilling contributed to the upturn. Transportation equipment decreased less than in the first quarter; motor vehicle purchases turned up, but purchases of aircraft weakened further. Industrial

equipment turned down.

In structures, nonresidential buildings decreased more than in the first quarter, and construction by utilities turned down. Mining exploration, shafts, and wells decreased much less than in the first quarter.

The investment climate has generally been unfavorable in recent quarters. Both the capacity utilization rate for manufacturing, mining, and utilities and domestic corporations' profits from current production edged higher in the second quarter, but both series remained 10 percent below the peak levels they had reached in the expansion of the 1990s. Growth of real final sales of domestic product remained below par; it averaged 1.5 percent over the past four quarters, compared with a 3.4-percent average over the most recent expansion. Long-term interest rates have trended down only modestly; for example, the yield on high-grade corporate bonds has been flat over the past

Table 5. Real Private Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	2002		2001		2002	2001		2002	
	II	III	IV	I	II	III	IV	I	II
Private fixed investment.....	1,571.8	-17.8	-37.3	-2.0	-4.6	-4.3	-8.9	-0.5	-1.2
Nonresidential	1,180.7	-19.3	-35.3	-18.0	-7.7	-6.0	-10.9	-5.8	-2.6
Structures.....	231.6	1.9	-23.6	-9.5	-11.6	2.9	-30.1	-14.2	-17.7
Nonresidential buildings, including									
farm.....	148.2	-9.0	-10.7	-6.4	-8.9	-18.4	-22.3	-14.8	-20.8
utilities.....	48.7	-1.8	-0.4	1.5	-2.1	-13.6	-2.7	12.7	-15.7
Mining exploration, shafts, and wells.....	29.9	1.3	-1.1	-4.6	-0.3	16.3	-12.1	-43.0	-3.5
Other structures.....	6.2	12.2	-12.0	0	-0.1	(¹)	(¹)	1.7	-9.5
Equipment and software	961.0	-23.5	-6.1	-6.6	7.3	-9.2	-2.5	-2.7	3.1
Information processing equipment and software.....	556.0	-16.4	-1.6	8.6	15.6	-11.4	-1.2	6.7	12.0
Computers and peripheral equipment ²	273.0	-14.5	18.8	18.8	10.9	-22.1	37.8	34.8	17.7
Software ³	183.2	-1.2	0.1	-1.6	4.2	-2.6	0.3	-3.6	9.9
Other.....	158.5	-7.1	-7.4	2.9	4.4	-16.0	-17.5	7.8	11.9
Industrial equipment.....	145.9	-7.2	-4.5	3.6	-2.4	-17.3	-11.5	10.4	-6.3
Transportation equipment.....	143.6	-1.6	5.4	-13.9	-7.9	-3.9	14.3	-29.7	-19.2
Of which: Motor vehicles.....	121.7	-4.7	1.5	-10.9	5.9	-13.6	4.8	-30.2	21.8
Other.....	140.0	0.4	-4.8	-1.6	5.4	1.1	-12.9	-4.6	16.9
Residential.....	385.7	0.3	-3.3	12.6	2.1	0.4	-3.5	14.2	2.3
Structures.....	376.0	0.4	-3.5	12.4	2.1	0.4	-3.7	14.4	2.3
Single-family.....	198.1	1.0	-2.8	5.9	0.9	2.1	-5.6	12.9	2.0
Multifamily.....	26.9	0	0.8	1.9	-0.1	0.4	13.2	34.7	-1.3
Other structures ⁴	150.8	-0.7	-1.4	4.5	1.2	-1.9	-4.0	13.1	3.4
Equipment.....	9.8	0	0.2	0.1	0.1	0.3	6.7	4.1	3.7

1. The percent change is not calculated for the third and fourth quarters of 2001. As explained in the "Business Situation" in March and June 2002, leasing of properties at the World Trade Center early in the third quarter makes the calculation meaningless.

2. Includes new computers and peripheral equipment only.

3. Excludes software "embedded," or bundled, in computers and other equipment.

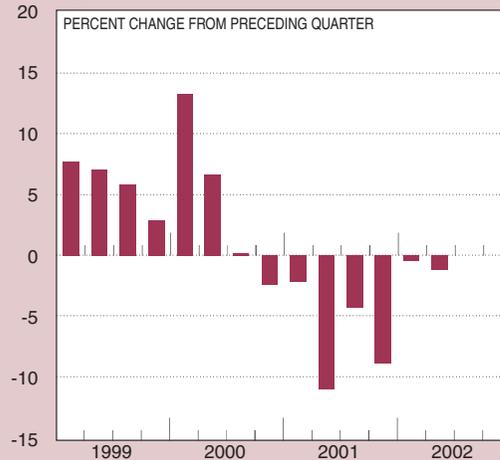
4. Includes home improvements, new manufactured home sales, brokers' commissions on home sales, net purchases of used structures, and other residential structures (which consists primarily of dormitories and of fraternity and sorority houses).

NOTE. See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

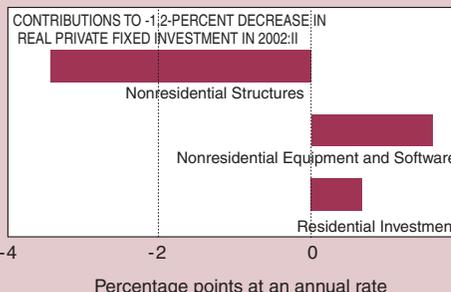
CHART 4

Real Private Fixed Investment

Percent



Based on Seasonally Adjusted Annual Rates



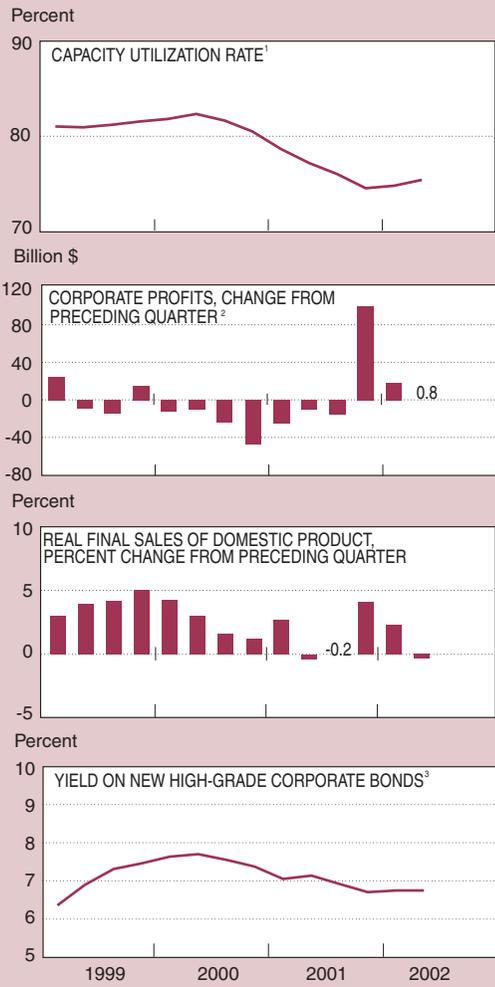
U.S. Bureau of Economic Analysis

three quarters and is only about 1 percentage point lower than 2 years ago (chart 5).

Residential investment. Real private residential investment increased 2.3 percent after surging in the first quarter (table 5 and chart 4). Single-family and “other” structures increased much less than in the first quarter, and multifamily structures turned down. The deceleration in “other” structures mainly reflected a slowdown in brokers’ commissions on home sales.

CHART 5

Selected Factors Affecting Nonresidential Investment



1. All industries. Data: Federal Reserve Board
 2. Domestic industries.
 3. Data: U.S. Treasury Department
 U.S. Bureau of Economic Analysis

Inventory Investment

Real inventory stocks increased \$7.3 billion in the second quarter after decreasing \$28.9 billion in the first (table 6 and chart 6). The increase was the first since the fourth quarter of 2000, and the \$36.2 billion swing from the first quarter to the second contributed 1.40 percentage points to GDP growth in the second quarter.⁷

Inventory liquidation by manufacturers slowed to less than half its first-quarter pace. In durable-goods industries, slower liquidation by transportation equipment manufacturers was the biggest factor in the slowdown, but slower liquidation by computer manufacturers and by manufacturers of primary metals also contributed. In nondurable-goods industries, inventory liquidation gave way to accumulation; the major contributor was a swing from liquidation to accumulation by food manufacturers.

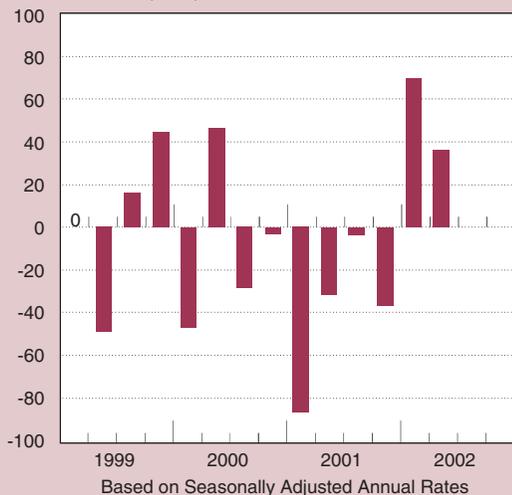
Inventories of retailers increased more than in the first quarter. The step-up reflected slower liquidation by general merchandise stores, a swing from liquidation to accumulation by food stores, and a faster pace of accumulation by clothing stores and by motor vehicle dealers. In contrast, building materials stores reduced their inventories in the second quarter after increasing them in the first.

7. In the NIPAs, the level of GDP depends, in part, on the change in private inventories, and the change (or growth) in GDP depends on the "change in the change" in private inventories.

CHART 6

Real Private Inventory Investment: Change from Preceding Quarter

Billion chained (1996) \$



U.S. Bureau of Economic Analysis

Liquidation of wholesale trade inventories slowed. The slowdown was largely accounted for by durable-goods industries. Durable-goods inventories of nonmerchant wholesalers and inventories of motor-vehicle wholesalers increased in the second quarter after decreasing in the first. Inventories of professional and commercial equipment wholesalers increased faster than in the first quarter.

Farm inventories increased less than in the first quarter, reflecting a smaller increase in crop inventories and a downturn in livestock inventories.

The ratio of real private nonfarm inventories to final sales of goods and structures increased to 3.64 from 3.60 (see NIPA table 5.13B). A ratio that includes all final sales of domestic businesses was unchanged at 2.02.⁸ Both ratios have been trending down since the mid-1970s.

8. Using the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, using the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

Table 6. Real Change in Private Inventories
[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	2001			2002		2001		2002	
	II	III	IV	I	II	III	IV	I	II
Change in private inventories	-58.3	-61.8	-98.4	-28.9	7.3	-3.5	-36.6	69.5	36.2
Farm	-3.3	2.0	3.6	6.4	0.8	5.3	1.6	2.8	-5.6
Construction, mining, and utilities.....	10.3	5.7	4.3	1.6	-0.6	-4.6	-1.4	-2.7	-2.2
Manufacturing	-41.7	-44.1	-40.2	-31.9	-12.0	-2.4	3.9	8.3	19.9
Durable goods industries.....	-31.4	-41.0	-35.2	-25.9	-14.1	-9.6	5.8	9.3	11.8
Nondurable goods industries	-10.6	-3.7	-5.1	-6.0	2.0	6.9	-1.4	-0.9	8.0
Wholesale trade.....	-9.5	-25.1	-26.8	-19.8	-9.1	-15.6	-1.7	7.0	10.7
Durable goods industries.....	-26.4	-27.5	-29.9	-17.0	-7.3	-1.1	-2.4	12.9	9.7
Nondurable goods industries	14.8	1.2	1.9	-3.2	-1.9	-13.6	0.7	-5.1	1.3
Retail trade	-17.2	-3.3	-40.6	13.8	22.2	13.9	-37.3	54.4	8.4
Of which: Motor vehicle dealers.....	-5.4	-1.2	-34.8	14.0	15.0	4.2	-33.6	48.8	1.0
Other industries ¹	1.4	2.2	2.3	0	4.9	0.8	0.1	-2.3	4.9
Addenda:									
Motor vehicles	-8.4	-0.4	-33.5	10.2	20.0	8.0	-33.1	43.7	9.8
Autos	-3.1	0.7	-12.7	7.8	10.8	3.8	-13.4	20.5	3.0
Trucks.....	-4.8	-0.9	-18.8	2.8	8.7	3.9	-17.9	21.6	5.9

1. Includes inventories held by establishments in the following industries: transportation; communication; finance, insurance, and real estate; and services.

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11B and 8.9B (motor vehicles).

Exports and Imports, next page.

Exports and Imports

Real exports and real imports both increased more than in the first quarter (table 7 and charts 7 and 8). The step-up in imports was larger than in exports.

Imports of goods jumped 28.5 percent after increasing 3.7 percent. All major end-use categories contributed to the step-up. Consumer goods, autos,

petroleum, and “other” imports made the biggest contributions.

Imports of services dipped 1.5 percent after increasing 35.7 percent. The downturn was mainly accounted for by downturns in travel, passenger fees, and royalties and license fees.

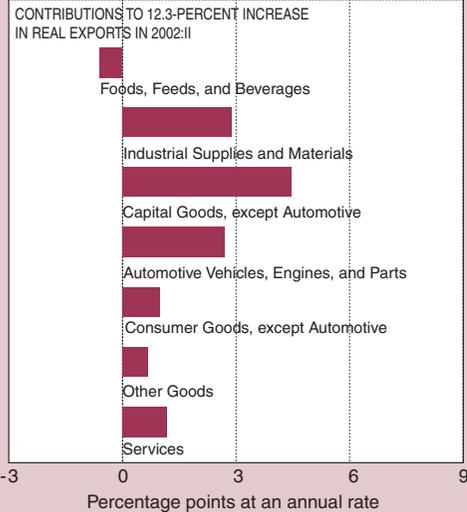
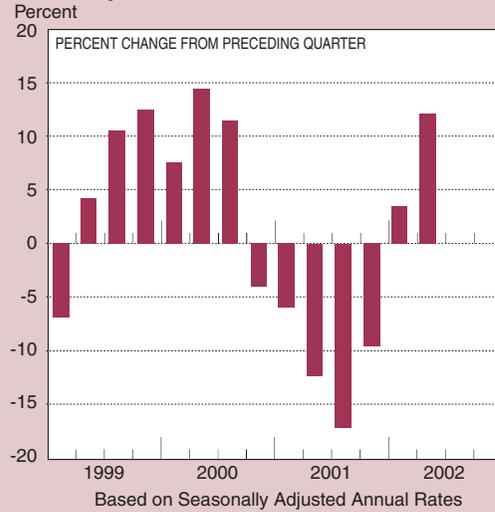
Table 7. Real Exports and Imports of Goods and Services
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			Percent change from preceding quarter			
	2002		2001			2002			
	II	III	IV	I	II	III	IV	I	II
Exports of goods and services....	1,060.9	-50.8	-26.2	8.8	30.3	-17.3	-9.6	3.5	12.3
Exports of goods ¹	766.7	-40.1	-15.4	-6.5	28.6	-18.6	-7.9	-3.4	16.4
Foods, feeds, and beverages	61.4	-2.1	2.5	0.3	-2.0	-12.5	17.7	1.5	-12.0
Industrial supplies and materials.....	166.0	-4.0	0.9	-1.3	7.5	-9.4	2.2	-3.1	20.2
Capital goods, except automotive.....	327.8	-27.1	-16.8	-4.9	11.8	-26.6	-18.5	-5.9	15.8
Automotive vehicles, engines, and parts.....	78.1	0	-2.7	-0.6	6.4	0.2	-13.9	-3.2	40.6
Consumer goods, except automotive.....	84.6	-5.7	-1.3	-1.6	2.3	-22.9	-5.6	-7.5	11.8
Other.....	48.2	-2.0	2.1	1.7	1.6	-16.5	21.3	15.8	14.8
Exports of services ¹	294.6	-11.0	-10.5	14.0	2.4	-13.9	-13.8	21.7	3.4
Imports of goods and services....	1,555.0	-46.6	-19.8	29.9	77.9	-11.8	-5.3	8.5	22.8
Imports of goods ¹	1,330.9	-31.9	-10.5	11.3	80.9	-9.6	-3.3	3.7	28.5
Foods, feeds, and beverages	54.6	2.8	-1.0	0.6	1.4	23.7	-6.9	4.7	10.6
Industrial supplies and materials, except petroleum and products.....	165.4	0.1	-0.6	2.3	4.6	0.2	-1.4	5.9	11.9
Petroleum and products.....	89.1	-7.0	0.8	-4.4	6.8	-26.9	3.9	-19.0	37.4
Capital goods, except automotive.....	399.1	-25.0	-6.4	10.6	17.0	-22.6	-6.5	11.8	19.1
Automotive vehicles, engines, and parts.....	203.5	0.6	-4.9	3.1	16.2	1.1	-9.9	6.8	39.4
Consumer goods, except automotive.....	326.7	-5.1	-2.2	8.2	24.3	-6.6	-3.0	11.6	36.2
Other.....	84.2	-0.4	2.8	-7.2	7.8	-2.0	14.9	-30.3	47.7
Imports of services ¹	224.7	-14.9	-9.7	16.6	-0.8	-23.2	-16.5	35.7	-1.5

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.
Note. See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

CHART 7

Real Exports

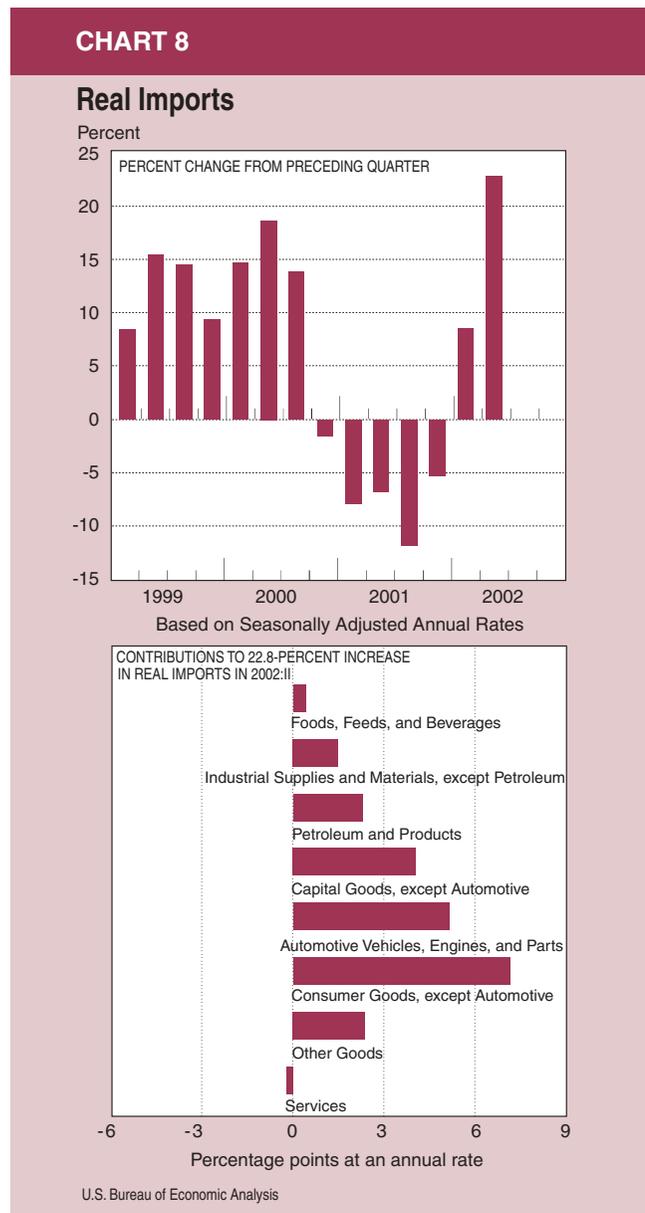


U.S. Bureau of Economic Analysis

Exports of goods increased 16.4 percent after decreasing 3.4 percent. Capital goods, which account for almost half of all exported goods, turned up after decreasing in the previous four quarters. Autos and industrial supplies and materials posted hefty gains after decreasing moderately in the first quarter. Nonautomotive consumer goods also increased after declining.

In contrast to these upturns, foods, feeds, and beverages turned down.

Exports of services increased 3.4 percent after surging in the first quarter. As with imports of services, the weakening mainly reflected travel, passenger fares, and royalties and license fees.



Government Spending, next page.

Government Spending

Government spending slowed in the second quarter. Federal Government spending increased at about the same rate as in the first quarter, but State and local government spending turned down (table 8 and chart 9).

The second-quarter increase in Federal Government spending reflected increases in both defense spending and nondefense spending; in the first quarter, defense spending had accounted for virtually the entire increase. In defense spending, the second-quarter increase was largely accounted for by research and development and by personnel and weapons support. In nondefense spending, it largely reflected rises in purchases by the Commodity Credit Corporation and in investment in equipment and software.

State and local government decreased 1.8 percent after increasing 4.6 percent. In the second quarter, a

sizable decrease in investment (almost all of it in structures) more than offset an increase in consumption expenditures.

Table 8. Real Government Consumption Expenditures and Gross Investment

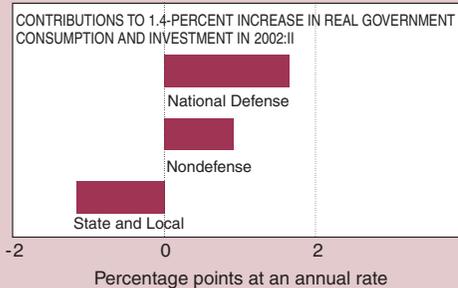
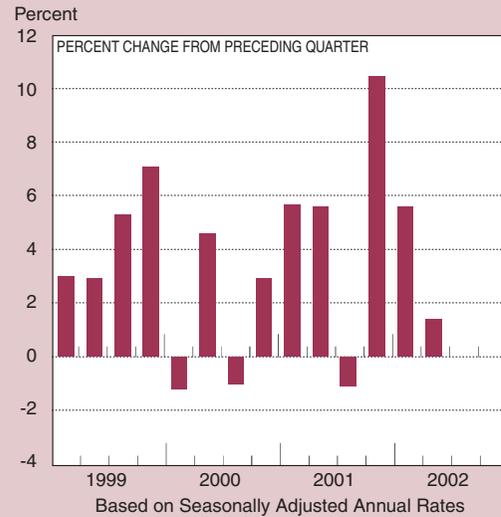
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2002	2001		2002		2001		2002	
	II	III	IV	I	II	III	IV	I	II
Government consumption expenditures and gross investment¹	1,703.4	-4.7	41.2	22.8	6.1	-1.1	10.5	5.6	1.4
Federal	609.0	1.7	18.3	10.6	11.2	1.2	13.5	7.4	7.7
National defense	395.7	4.1	12.5	10.5	7.2	4.6	14.3	11.6	7.6
Consumption expenditures	333.9	2.3	11.9	7.6	7.2	3.1	16.4	9.8	9.0
Gross investment	62.1	1.9	0.3	3.2	-0.1	14.1	2.1	23.5	-0.8
Nondefense	213.3	-2.4	5.9	0.2	4.0	-4.5	12.1	0.4	7.7
Consumption expenditures	166.5	-0.7	2.4	0.6	2.2	-1.6	6.0	1.5	5.4
Gross investment	47.3	-1.9	3.8	-0.5	1.9	-16.0	41.6	-4.0	18.0
State and local	1,094.4	-6.1	23.0	12.2	-4.9	-2.3	8.9	4.6	-1.8
Consumption expenditures	879.5	10.4	8.9	5.2	3.6	5.0	4.2	2.4	1.7
Gross investment	214.9	-17.3	14.5	7.2	-8.8	-28.1	32.1	14.0	-14.9

1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.
 Note. See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

CHART 9

Real Government Consumption and Investment



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Prices

The price index for gross domestic purchases, which measures the prices of goods and services purchased by U.S. residents, increased 2.2 percent in the second quarter after increasing 1.2 percent in the first (table 9). The step-up was more than accounted for by a sharp upturn in the price of energy goods and services. Prices of gross domestic purchases less food and energy increased 1.4 percent, the same as in the first quarter (chart 10).

Prices of personal consumption expenditures increased 2.5 percent after increasing 1.1 percent. Energy prices also accounted for most of this step-up.

Prices paid by government increased 2.9 percent after increasing 3.6 percent. Prices paid by the Federal Government slowed sharply after a first-quarter surge

that reflected a pay raise for civilian and military personnel.

Prices of private nonresidential fixed investment decreased less than in the first quarter. Prices of structures increased after three consecutive quarterly decreases. Prices of equipment and software decreased about the same as in the first quarter.

Prices of residential investment increased after no change. Prices of single-family and multifamily structures turned up, and prices of "other" structures increased more than in the first quarter.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 1.1 percent—half as much as the price index for gross domestic purchases. The GDP index, unlike the index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Import prices and export prices both increased in the second quarter, but the increase in import prices (largely reflecting petroleum prices) was considerably larger.

Table 9. Percent Changes in Prices

[Annual rates; based on seasonally adjusted index numbers (1996=100)]

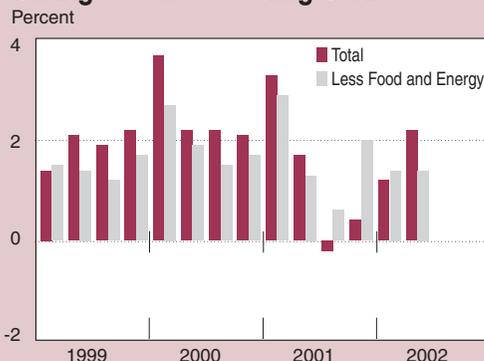
	2001		2002	
	III	IV	I	II
Gross domestic product	2.2	-0.5	1.3	1.1
Less: Exports of goods and services	-1.9	-3.8	-0.8	2.8
Plus: Imports of goods and services	-17.0	4.7	-1.6	10.8
Equals: Gross domestic purchases	-0.2	0.4	1.2	2.2
Less: Change in private inventories .....	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	-0.1	0.5	1.1	2.2
Personal consumption expenditures	-0.1	0.8	1.1	2.5
Durable goods	-2.7	-1.5	-4.2	-2.9
Nondurable goods	-1.4	-3.5	0.2	4.6
Services	1.1	3.5	2.7	2.6
Private fixed investment	-0.2	-0.1	-1.5	-0.2
Nonresidential	-1.1	-1.6	-2.0	-1.2
Structures	-0.3	-1.6	-3.6	0.3
Equipment and software	-1.5	-1.6	-1.5	-1.7
Residential	2.5	3.7	0	2.2
Government consumption expenditures and gross investment	-0.3	-0.3	3.6	2.9
Federal	0.5	-0.4	8.4	2.5
National defense	0.6	-1.1	7.3	2.2
Nondefense	0.4	0.7	10.4	3.2
State and local	-0.8	-0.3	1.1	3.1
Addenda:				
Gross domestic purchases:				
Food	3.5	2.3	2.4	0.4
Energy	-21.6	-33.0	-8.7	30.1
Less food and energy	0.6	2.0	1.4	1.4
Personal consumption expenditures:				
Food	3.5	2.4	2.4	0.5
Energy goods and services ¹	-21.3	-32.1	-9.1	29.6
Less food and energy	0.7	2.7	1.4	1.6

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE: Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

CHART 10

Gross Domestic Purchases Prices: Change From Preceding Quarter



Note—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1996=100).

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Revisions, next page.

Revisions

The preliminary estimate of a 1.1-percent increase in real GDP in the second quarter is identical to last month's advance estimate because revisions to the components of GDP were offsetting (table 10). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate has been 0.5 percentage point.

Change in private inventories and consumer expenditures for nondurable goods were revised up; their contributions to the change in real GDP were revised up 0.25 percentage point and 0.14 percentage point, respectively. The revision to inventories reflected the incorporation of revised (May) and newly available (June) data from the Census Bureau, mainly for retail trade and manufacturing. The revision to nondurable

goods reflected the incorporation of revised retail sales data from the Census Bureau for June.

The largest downward revision was to consumer expenditures for services; its contribution to the change in real GDP was revised -0.14 percentage point. The revision reflected the incorporation of newly available data on brokerage and investment counseling from the Securities and Exchange Commission. Nonresidential structures (mainly buildings) and residential investment (mainly multifamily structures) were also revised down; the contribution of each was revised -0.12 percentage point. These revisions reflected the incorporation of revised (April and May) and newly available (June) data on the value of construction put-in-place.

Table 10. Revisions to Change in Real Gross Domestic Product and Prices, Second Quarter 2002

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	1.1	1.1	0.0	1.7
<i>Less: Exports</i>	11.7	12.3	0.6	1.4
Goods.....	15.2	16.4	1.2	2.0
Services.....	4.1	3.4	-0.7	-0.5
<i>Plus: Imports</i>	23.5	22.8	-0.7	-2.1
Goods.....	28.9	28.5	-0.4	-1.0
Services.....	0.1	-1.5	-1.6	-0.9
Equals: Gross domestic purchases	2.8	2.7	-0.1	-1.1
<i>Less: Change in private inventories</i>				6.3
Equals: Final sales to domestic purchasers	1.6	1.3	-0.3	-7.2
Personal consumption expenditures.....	1.9	1.9	0.0	-0.4
Durable goods.....	2.4	2.2	-0.2	-0.5
Nondurable goods.....	-0.6	0.1	0.7	3.3
Services.....	3.0	2.7	-0.3	-3.1
Private fixed investment.....	0.3	-1.2	-1.5	-5.7
Nonresidential.....	-1.6	-2.6	-1.0	-2.9
Structures.....	-14.0	-17.7	-3.7	-2.6
Equipment and software.....	2.9	3.1	0.2	0.4
Residential.....	5.0	2.3	-2.7	-2.5
Government consumption expenditures and gross investment.....	1.8	1.4	-0.4	-1.4
Federal.....	7.4	7.7	0.3	0.4
National defense.....	8.0	7.6	-0.4	-0.3
Nondefense.....	6.3	7.7	1.4	0.7
State and local.....	-1.1	-1.8	-0.7	-1.9
Addenda:				
Final sales of domestic product.....	-0.1	-0.3	-0.2	-4.2
Gross domestic purchases price index.....	2.1	2.2	0.1	.....
GDP price index.....	1.2	1.1	-0.1	.....

NOTE: The preliminary estimates for the second quarter of 2002 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for May and June (revised), consumers' share of new-car purchases for June, average unit value for domestic new autos for June (revised), consumers' share of new-truck purchases for June, and brokerage services data for the second quarter.

Nonresidential fixed investment: Construction put-in-place for April and May (revised) and June, manufacturers' shipments of machinery and equipment for May and June (revised), and manufacturers' shipments of complete civilian aircraft for May (revised) and June.

Residential fixed investment: Construction put-in-place for April and May (revised) and June.

Change in private inventories: Manufacturing and trade inventories for May (revised) and June.

Exports and imports of goods and services: Exports and imports of goods for May (revised) and June.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for June, and State and local government construction put-in-place for April and May (revised) and June.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for May and June (revised).

GDP prices: Detailed merchandise export and import price indexes for April through June (revised), unit-value index for petroleum imports for May (revised) and June, and housing prices for the second quarter.

Corporate Profits

Profits from current production decreased \$13.4 billion (or 1.7 percent at a quarterly rate) in the second quarter after decreasing a similar amount in the first (table 11).⁹

The decrease in current-production profits contrasts with a \$17.0 billion (2.7 percent) increase in profits before tax.¹⁰ The difference between the two measures mainly reflects a decrease in the capital consumption adjustment.

Current-production profits consists of profits of domestic corporations and profits from the rest of the world.¹¹ Profits of domestic corporations, both nonfinancial and financial, changed little after increasing. Profits from the rest of the world decreased, though not as much as in the first quarter.

For domestic nonfinancial corporations, the flatness in profits reflected the offsetting effects of a decrease in profits per unit and an increase in output.¹²

For domestic financial corporations, the flatness in profits mainly reflected modest increases in profits of depository institutions that were offset by a modest decrease in profits of "other" financial corporations (such as real estate investment trusts and federally sponsored credit agencies).

For profits from the rest of the world, the second-quarter decrease reflected a smaller increase in re-

9. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

10. Profits before tax is based on inventory and depreciation practices used in tax accounting, whereas the current-production measure—which excludes nonoperating items, such as special charges and capital gains and losses—is based on depreciation of fixed assets and inventory withdrawals valued at current cost.

11. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

12. "Output" here is nonfinancial corporate gross product. It is a measure of the contribution, or value added, of nonfinancial corporations to the Nation's output, and it is measured as the sum of incomes generated by these businesses.

ceipts than in payments.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$11.5 billion after decreasing \$36.3 billion.¹³ The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, slipped from 86.9 percent to 86.7 percent. (During the expansion of the 1990s, the ratio averaged 82.2 percent.)

13. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

Table 11. Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level		Change from preceding quarter			2001		2002	
	2002	2001	2002		2001	2002	2001	2002	
	II	III	IV	I	II	III	IV	I	II
Profits from current production	784.2	-34.2	124.2	-13.8	-13.4	-4.7	18.1	-1.7	-1.7
Domestic industries.....	666.4	-15.6	101.4	18.9	0.8	-2.8	18.6	2.9	0.1
Financial	213.4	-25.5	55.5	15.4	0.2	-15.2	39.0	7.8	0.1
Nonfinancial	453.0	9.9	46.0	3.4	0.6	2.5	11.4	0.8	0.1
Rest of the world	117.8	-18.6	22.9	-32.7	-14.2	-11.6	16.1	-19.8	-10.8
Receipts (inflows).....	168.9	-11.2	-11.1	5.3	7.5	-6.3	-6.6	3.4	4.6
Payments (outflows).....	51.1	7.3	-33.8	37.9	21.7	40.6	-133.6	444.9	73.9
IVA.....	-4.6	15.1	18.3	-25.3	-6.5	.....	.....	.....	.....
CCAdj.....	132.4	16.6	161.2	-28.8	-23.9	.....	.....	.....	.....
Profits before tax.....	656.4	-65.9	-55.2	40.3	17.0	-9.1	-8.4	6.7	2.7
Profits tax liability.....	212.2	-16.9	-25.6	31.8	9.8	-7.9	-13.1	18.6	4.8
Profits after tax.....	444.2	-49.0	-29.6	8.5	7.2	-9.7	-6.5	2.0	1.7
Profits from current production less tax liability	572.0	-17.4	149.9	-45.6	-23.2	-3.4	30.5	-7.1	-3.9
Cash flow from current production.....	967.8	40.9	100.5	-36.3	-11.5	4.7	11.0	-3.6	-1.2
Domestic industry profits:									
Corporate profits of domestic industries with IVA.....	534.0	-32.2	-59.8	47.7	24.7	-5.8	-11.5	10.3	4.9
Financial	221.3	-28.9	37.4	18.1	3.1	-15.1	23.0	9.0	1.4
Nonfinancial	312.7	-3.3	-97.2	29.6	21.6	-0.9	-27.1	11.3	7.4
	Dollars								
Unit price, costs, and profits of nonfinancial corporations:									
Unit price.....	1.055	0.006	-0.009	-0.002	-0.001	.....	.....	.....	.....
Unit labor cost.....	0.694	-0.002	-0.013	-0.002	-0.001	.....	.....	.....	.....
Unit nonlabor cost.....	0.274	0.005	-0.003	-0.001	0.002	.....	.....	.....	.....
Unit profits from current production.....	0.087	0.002	0.008	0	-0.001	.....	.....	.....	.....

NOTE: Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.
IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

Government Sector

The combined current deficit of the Federal Government and of State and local governments increased \$33.1 billion, to \$228.3 billion, in the second quarter after increasing \$186.3 billion in the first (table 12).¹⁴ The second-quarter increase was more than accounted for by an increase in the Federal current deficit. The State and local current deficit decreased in the second quarter after increasing in the first.

Federal

The Federal Government current deficit increased \$41.6 billion, to \$185.1 billion, in the second quarter after a shift of \$164.8 billion from a surplus to a deficit in the first. Current receipts turned up, and current expenditures decelerated.

Current receipts. Federal current receipts increased \$2.3 billion in the second quarter after decreasing \$105.3 billion in the first. The upturn was mostly accounted for by a smaller decrease in personal tax and nontax receipts. In contrast, corporate profits tax accruals and contributions for social insurance decelerated.

Personal tax and nontax receipts decreased \$13.2 billion after decreasing \$149.4 billion. The smaller decrease was accounted for by personal income taxes, which decreased \$12.8 billion after decreasing \$149.0 billion. Within personal income taxes, nonwithheld income taxes decreased \$9.6 billion after decreasing \$99.5 billion; the large first-quarter decrease primarily reflected lower projected 2002 levels for final settlements. Withheld income taxes decreased \$3.2 billion after decreasing \$49.5 billion; the large first-quarter decrease primarily reflected the effect of the new 10-percent tax bracket established by the Economic Growth and Tax Relief Reconciliation Act of 2001.

Corporate profits tax accruals increased \$8.4 billion after increasing \$27.6 billion. The deceleration reflected the smaller increase in domestic corporate profits before tax.

Contributions for social insurance increased \$5.3 billion after increasing \$15.5 billion. The deceleration primarily reflected a deceleration in contributions for social security (old-age, survivors, disability, and health insurance trust funds), which increased \$5.2 billion after increasing \$12.5 billion. In the first quarter, contributions for social insurance were boosted \$5.3 billion by an increase in the social security taxable wage base.

Current expenditures. Current expenditures increased \$44.0 billion in the second quarter after increasing \$59.5 billion in the first. The deceleration was more than accounted for by decelerations in transfer payments and consumption expenditures. Net interest paid turned up, and grants-in-aid to State and local governments accelerated.

“Transfer payments (net)” increased \$5.9 billion after increasing \$46.0 billion. Transfer payments to the rest of the world decreased \$14.3 billion after a \$7.5

Table 12. Government Sector Current Receipts and Expenditures
[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter			
	2002	2001		2002	
	II	III	IV	I	II
Current receipts.....	2,885.3	-173.2	107.9	-114.0	13.2
Current expenditures.....	3,113.7	36.8	18.8	72.4	46.4
Current surplus or deficit (-).....	-228.3	-210.0	89.0	-186.3	-33.1
Social insurance funds.....	52.9	-11.1	-12.1	-11.4	-12.0
Other.....	-281.3	-199.0	101.2	-175.0	-21.2
Federal					
Current receipts.....	1,889.3	-176.3	96.3	-105.3	2.3
Personal tax and nontax receipts.....	862.9	-159.4	125.1	-149.4	-13.2
Corporate profits tax accruals.....	178.9	-15.2	-25.1	27.6	8.4
Indirect business tax and nontax accruals.....	110.1	-2.7	-2.2	1.1	1.7
Contributions for social insurance.....	737.4	1.0	-1.5	15.5	5.3
Current expenditures.....	2,074.5	19.9	23.3	59.5	44.0
Consumption expenditures.....	581.2	3.0	15.7	22.7	14.9
National defense.....	382.5	3.4	12.6	16.1	10.4
Nondefense.....	198.7	-0.4	3.0	6.7	4.5
Transfer payments (net).....	922.8	17.1	21.6	46.0	5.9
To persons.....	914.4	15.9	15.2	38.5	20.3
To the rest of the world.....	8.5	1.2	6.4	7.5	-14.3
Grants-in-aid to State and local governments.....	309.6	-10.5	18.0	2.9	17.3
Net interest paid.....	214.6	-9.5	-12.0	-13.1	6.1
Subsidies less current surplus of government enterprises.....	46.3	19.9	-20.0	1.1	-0.3
Subsidies.....	45.5	20.2	-19.2	1.8	0.6
Of which: Agricultural subsidies.....	21.6	-0.3	0.1	1.0	0.1
Less: Current surplus of government enterprises.....	-0.8	0.5	0.7	0.7	0.9
Less: Wage accruals less disbursements.....	0.0	0.0	0.0	0.0	0.0
Current surplus or deficit (-).....	-185.1	-196.1	73.0	-164.8	-41.6
Social insurance funds.....	53.1	-11.1	-12.1	-11.3	-12.0
Other.....	-238.2	-185.1	85.1	-153.5	-29.6
State and local					
Current receipts.....	1,305.6	-7.5	29.6	-5.8	28.2
Personal tax and nontax receipts.....	269.2	5.3	2.7	-18.3	3.2
Corporate profits tax accruals.....	33.2	-1.7	-0.5	4.3	1.2
Indirect business tax and nontax accruals.....	684.2	-0.6	9.3	5.3	6.4
Contributions for social insurance.....	9.4	0.1	-0.1	0.1	0.1
Federal grants-in-aid.....	309.6	-10.5	18.0	2.9	17.3
Current expenditures.....	1,348.8	6.4	13.5	15.8	19.7
Consumption expenditures.....	1,031.0	9.5	8.1	9.5	13.3
Transfer payments to persons.....	330.7	7.0	6.9	8.0	7.3
Net interest paid.....	-1.9	0.2	0.2	-0.1	0.0
Less: Dividends received by government.....	0.5	0.0	0.0	0.0	0.1
Subsidies less current surplus of government enterprises.....	-10.5	-10.5	-1.7	-1.5	-0.9
Subsidies.....	1.2	-10.8	-1.4	-1.5	-0.2
Less: Current surplus of government enterprises.....	11.7	-0.5	0.4	0.0	0.7
Less: Wage accruals less disbursements.....	0.0	0.0	0.0	0.0	0.0
Current surplus or deficit (-).....	-43.2	-13.9	16.0	-21.5	8.5
Social insurance funds.....	-0.1	0.0	-0.1	0.0	0.1
Other.....	-43.1	-13.9	16.1	-21.6	8.5
Addendum:					
Net lending or net borrowing (-) ¹	-328.7	-118.1	66.4	-193.7	-29.5
Federal.....	-213.0	-200.9	72.5	-170.4	-45.9
State and local.....	-115.7	12.8	-6.1	-23.3	16.4

14. The combined current surplus or deficit of the Federal Government and State and local governments is the NIPA measure of net saving by government. Net saving equals gross saving less consumption of fixed capital. These estimates are shown in NIPA table 5.1.

1. Net lending or borrowing is conceptually similar to net financial investment in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

billion increase. The downturn was mostly accounted for by a payment of \$2.4 billion (\$9.6 billion at an annual rate) to Israel for economic support in the first quarter. Transfer payments to persons increased \$20.3 billion after a \$38.5 billion increase. The deceleration was mostly accounted for by a deceleration in benefit payments for social security (old-age, survivors, and disability insurance) and for earned income and child tax credit support income; the first-quarter payments for these and other programs were boosted \$12.5 billion by a 2.6-percent cost-of-living adjustment. Transfer payments to regular unemployment programs and to nonprofit institutions also decelerated.

Consumption expenditures increased \$14.9 billion after a \$22.7 billion increase. The deceleration was mostly accounted for by defense consumption expenditures, which increased \$10.4 billion after increasing \$16.1 billion. Within defense consumption expenditures, services decelerated, increasing \$9.5 billion after a \$15.8 billion increase. Within services, compensation of employees increased \$2.0 billion after increasing \$8.7 billion; first-quarter compensation was boosted \$7.5 billion by a pay raise in January 2002. In contrast, "other services" (which includes expenditures for research and development, for transportation of materials, for travel of persons, and for other services), increased \$7.3 billion after a \$6.8 billion increase. Durable goods decelerated, increasing \$0.2 billion after a \$0.6 billion increase; spending on parts for missiles and for computers turned down, and spending on parts for ships decelerated. Nondurable goods increased \$0.8 billion after decreasing \$0.4 billion; the upturn was more than accounted for by an upturn in spending for "other" nondurable goods and an acceleration in spending for petroleum products.

Nondefense consumption expenditures increased \$4.5 billion after an increase of \$6.7 billion. The deceleration was more than accounted for by a deceleration in services. Within services, compensation of employees increased \$1.1 billion after an increase of \$6.1 billion; first-quarter compensation was boosted \$2.7 billion by the January 2002 pay raise and \$1.7 billion by other labor income (which includes premiums for health insurance and other benefits). "Other services" (which includes expenditures for sales of services and for other services) increased \$1.3 billion after decreasing \$0.2 billion. Nondurable goods increased \$1.5 billion after increasing \$0.3 billion; the acceleration largely reflected an upturn in Commodity Credit Corporation inventory change, an acceleration in the purchases of crude oil for the Strategic Petroleum Reserve, and an upturn in spending for petroleum products.

Net interest paid increased \$6.1 billion after a decrease of \$13.1 billion. Gross interest paid increased

\$6.3 billion after decreasing \$13.8 billion, primarily reflecting an upturn in interest paid to persons and business.

Grants-in-aid to State and local governments accelerated, increasing \$17.3 billion after increasing \$2.9 billion. Grants for State Medicaid programs and for welfare and social services accelerated, and grants for housing and community services, for central executive, legislative and judicial activities, and for natural resources turned up.

State and local

The State and local government current deficit decreased \$8.5 billion in the second quarter after increasing \$21.5 billion in the first. Current receipts turned up, and current expenditures accelerated.

Current receipts. State and local government current receipts increased \$28.2 billion after decreasing \$5.8 billion. The upturn was more than accounted for by an upturn in personal tax and nontax receipts and an acceleration in Federal grants-in-aid.

Personal tax and nontax receipts increased \$3.2 billion after decreasing \$18.3 billion. The upturn was mostly accounted for by personal income taxes, which increased \$2.2 billion after decreasing \$19.0 billion.

Current expenditures. Current expenditures increased \$19.7 billion after increasing \$15.8 billion. The acceleration was mostly accounted for by an acceleration in consumption expenditures and a smaller decrease in "subsidies less current surplus of government enterprises." In contrast, transfer payments decelerated.

Consumption expenditures increased \$13.3 billion after increasing \$9.5 billion. The acceleration was more than accounted for by nondurable goods, which increased \$5.0 billion after increasing \$1.4 billion. Within nondurable goods, petroleum products accelerated.

"Subsidies less current surplus of government enterprises" decreased \$0.9 billion after decreasing \$1.5 billion. Subsidies decreased \$0.2 billion after decreasing \$1.5 billion, reflecting continued decreases in electricity purchases by the State of California.

Transfer payments to persons increased \$7.3 billion after an increase of \$8.0 billion. The deceleration was mostly accounted for by Medicaid payments, which increased \$6.6 billion after increasing \$7.2 billion.

Net lending or net borrowing

"Net lending or net borrowing(-)" is an alternative measure of the government fiscal position. Net lending is the financing requirement of the government sector and is derived as the current surplus plus the consumption of fixed capital and "capital transfers

received (net)” less gross investment and net purchases of nonproduced assets.¹⁵ The government financing requirement continued to deteriorate; net borrowing increased \$29.5 billion in the second quarter after increasing \$193.7 billion in the first. Federal net borrowing increased \$45.9 billion as a result of the increase in the current deficit. State and local net

15. Net lending or net borrowing estimates are shown in NIPA tables 3.1–3.3.

borrowing decreased \$16.4 billion as a result of the decreases in gross investment and in the current deficit.

Government gross investment decreased \$7.2 billion after increasing \$10.3 billion. The downturn was more than accounted for by State and local government gross investment, which decreased \$9.1 billion after increasing \$8.0 billion. The downturn was mostly accounted for by investment in structures, which decreased \$8.5 billion after increasing \$9.4 billion.